

Message Text

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C O N F I D E N T I A L STATE 302672

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E.O. 11652: GDS

TAGS: ETRD, EAGR

SUBJECT: COFFEE: CONCERN OVER HIGH PRICES

1. WITH GREEN COFFEE PRICES NOW OVER TWO DOLLARS A POUND, THE DEPARTMENT IS RECEIVING INCREASED EXPRESSIONS OF CONCERN. CONGRESSMAN BENJAMIN ROSENTHAL OF NEW YORK, FOR EXAMPLE, HAS ANNOUNCED THAT HE IS CONSIDERING HOLDING A FORMAL INVESTIGATION TO DETERMINE IF THE HIGHER PRICES ARE THE RESULT OF MARKET MANIPULATION BY THE PRODUCING COUNTRIES OR OTHERS IN THE COFFEE MARKET. THE DOMESTIC TRADE AND INDUSTRY ARE SERIOUSLY CONCERNED THAT PRICE INCREASES ALREADY IN THE SUPPLY PIPELINE COULD RESULT IN SHARP AND PERMANENT REDUCTIONS TO CONSUMPTION. THE INDUSTRY IS RECONSIDERING ITS PLAN TO LAUNCH A GENERIC PROMOTION CAMPAIGN THIS FALL. THERE IS CONCERN THAT CONSUMERS, FACED WITH THE LIKELIHOOD OF RETAIL COFFEE PRICES AT OR NEAR THREE DOLLARS A POUND, ARE BECOMING INCREASINGLY RESENTFUL.

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2. THE DEPARTMENT SHARES THESE GENERAL CONCERNS. WITH

THE EXCEPTION OF FLURRY OF REPORTS CONNECTED WITH ANNOUNCED PURCHASES BY BRAZIL OF COFFEE FROM EL SALVADOR AND MADAGASCAR, WE HAVE SEEN NOTHING TO SUPPORT ALLEGATION THAT PRODUCERS HAVE ATTEMPTED TO MANIPULATE COFFEE PRICES.

WE HAVE SEEN NO EVIDENCE THAT PRODUCERS ARE WITHHOLDING COFFEE FROM THE MARKET. FOR EXAMPLE IMPORTS INTO U.S. AND OTHER MAJOR COUNTRIES ARE AT OR ABOVE NORMAL LEVELS. AT THE SAME TIME, WE SEE LITTLE PROSPECT FOR A SUBSTANTIAL DOWNWARD PRICE ADJUSTMENT IN THE NEXT SIX MONTHS AND THE POTENTIAL FOR A U.S. DOCK STRIKE IN 1977 COULD EXERT FURTHER UPWARD PRESSURES AS DOMESTIC PRODUCERS SEEK TO BUILD UP INVENTORIES.

3. FACED WITH THIS PROSPECT, THE DEPARTMENT IS CONSIDERING WHAT MEASURES THE U.S. MIGHT USEFULLY PROPOSE TO PROVIDE RELIEF TO THE PRICE SITUATION EITHER BI-LATERALLY TO MAJOR PRODUCERS OR TO THE INTERNATIONAL COFFEE ORGANIZATION.

4. DRAWING ON THE ABOVE, THE U.S. REP TO THE ICO SHOULD APPROACH THE EXECUTIVE DIRECTOR OF THE ICO AND DETERMINE IF HE HAS ANY SUGGESTIONS ON ACTIONS WHICH THE ICO OR THE PRODUCING COUNTRIES MIGHT TAKE. SPECIFICALLY, WE WOULD BE INTERESTED IN HIS VIEW OF THE PRICE EFFECT IF SEVERAL MAJOR PRODUCING COUNTRIES WERE TO REDUCE THE LEVELS OF THEIR EXPORT TAXES. KISSINGER

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